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FISCAL IMPACT STATEMENT

LS 7390
BILL NUMBER: SB 585

NOTE PREPARED: Feb 22, 2013
BILL AMENDED: Feb 21, 2013

SUBJECT: State and Local Administration.

FIRST AUTHOR: Sen. Charbonneau
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Lake County Income Tax* - This bill provides that the maximum property tax levies for civil taxing units in Lake County are frozen unless a total aggregate tax rate of 1% will be in effect in the county under any combination of the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT). (Current law specifies that the maximum levies are frozen unless a local option income tax for property tax relief of 1% is in effect in the county.)

The bill provides that if CAGIT, COIT, or CEDIT is imposed in Lake County, the initial total county income tax rate may not be increased, decreased, or rescinded. It provides that if COIT is imposed in Lake County, the total COIT rate (including any COIT rate for levy freeze, public safety, or property tax relief) may be imposed at any rate that does not exceed 0.75%.

This bill provides that the total CEDIT rate imposed in Lake County plus: (1) the total CAGIT rate imposed in Lake County; or (2) the total COIT rate imposed in Lake County; may not exceed 1%.

Gary Sanitary District - The bill requires the Department of Local Government Finance (DLGF) to increase the maximum property tax levy of the city of Gary. It provides that the adjustment to the maximum property tax levy of the city of Gary apply to property taxes first due and payable after December 31, 2012. The bill also decreases the maximum property tax levy of the Gary Sanitary District to zero, and provides that beginning with property taxes first due and payable after December 31, 2012, the district may not impose a property tax levy for its general fund.

Gary Airport Authority Board - This bill terminates on September 1, 2013, the term of each existing member serving on the board of the Gary Airport Authority (Board). It provides that appointments to the Board must also be approved by the Governor. It also requires that each person appointed to the Board must have knowledge of and at least five years professional work experience in aviation, regional economic development, or business or finance.

The bill specifies that the Office of Management and Budget (OMB) shall contract with a certified public accountant for an annual financial audit of the airport authority. It provides that the State Board of Accounts may at any time conduct an audit of any phase of the operations of the Gary Airport Authority. The bill also requires the Board to submit an annual report of the Board's activities to the Budget Agency and the Legislative Council.

Ports of Indiana Feasibility Study - This bill requires the Ports of Indiana Commission to report to the Budget Committee not later than December 1, 2013, on the feasibility and economic impact of establishing a second port to serve Lake Michigan.

Trauma Center - The bill requires the State Department of Health to investigate and study whether there is a need for a level 1 trauma center and academic medical center in northwestern Indiana.

Effective Date: January 1, 2013 (Retroactive); July 1, 2013; September 1, 2013.

Explanation of State Expenditures: (Revised) *Gary Airport Authority Board* - The bill ends the terms of existing members on January 1, 2014. Appointments made to the Board after January 1, 2014, must be made with the approval of the Governor. Additionally, each appointed member must have at least five years of professional work experience in aviation, regional economic development, and/or business or finance.

The OMB is to contract with a certified public account on behalf of the Board to provide an annual financial audit and study of internal accounting controls of the airport authority. Concurrently, the State Board of Accounts may at any time conduct an audit of any phase of the operations of the airport authority. The airport authority shall pay for all costs associated with these audits and studies.

The Board must also submit an annual report of its activities for the preceding year to the State Budget Agency and the Legislative Council. This annual report must be submitted not later than four months after the end of the Airport Authority's fiscal year.

Ports of Indiana Feasibility Study - The Ports of Indiana is to complete a feasibility study on the possibility of establishing a second port to serve Lake Michigan. The Ports will pay for the cost of this study out of its own revenue. In 1971, the General Assembly paid for a feasibility study on the port that ultimately became the Port of Indiana-Jeffersonville. The cost of the study at that time was $50,000. Inflated to 2012 dollars, the same study today could cost roughly $285,000. Using that information as well as comparisons on other port feasibility studies recently undertaken outside of Indiana, the study could potentially cost significantly more than this amount. A more exact cost estimate is not available at this time.

The Ports is a quasi-governmental agency that operates three ports - one on Lake Michigan and two on the Ohio River. The Ports operates under the direction of a seven-member board appointed by the Governor. The Ports generates its own operating budget from port leases, dock fees, and foreign-trade-zone licensing.

Trauma Center - The bill requires the State Department of Health to investigate and study whether there is a need for a Level 1 trauma center and academic medical center in northwestern Indiana. The bill requires the State Department of Health to report its findings to the State Budget Committee not later than November 1, 2015.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Lake County Income Tax - Summary* - This provision would make several changes to local income taxes that may be adopted in Lake County. The major changes are that (1) the total income tax rate in the county would be capped at 1% and (2) adoption of a 1% income tax rate in any combination of LOITs would eliminate the freeze on civil unit maximum property tax levies in Lake County. It is estimated that a 1% tax rate could potentially generate $90.6 M in CY 2014 and $92.4 M in CY 2015.

In general, adoption of a local income tax in Lake County could have several different effects on local governmental units and on property taxpayers in the county, depending on the mix of taxes adopted. Some options provide additional revenue to taxing units. Some options provide property tax credits to taxpayers which may reduce tax bills, reduce circuit breaker losses, or both. More than one distribution option may be adopted.

Lake County Income Tax - Background - Currently, the Lake County Council may adopt CAGIT or the Lake County Income Tax Council (comprised of the county and municipalities) may adopt COIT. Either entity may adopt CEDIT. Any or all of CAGIT or COIT revenue may be designated for various types of property tax relief. Alternatively, CEDIT, legacy COIT, and a portion of legacy CAGIT may be used for any purpose.

Under current law, legacy CAGIT and legacy COIT may be adopted at a rate of up to 1%, and CEDIT may be adopted at a rate of up to 0.5%. In combination, the legacy CAGIT / CEDIT rate may not exceed 1.25% and the legacy COIT / CEDIT rate may not exceed 1%.

Counties may also adopt additional LOITs under the CAGIT or COIT statutes to freeze property tax levies, to provide property tax credits directly to taxpayers, and to provide revenue for public safety. The levy freeze and property tax credit LOITs are each limited to a 1% income tax rate while the public safety LOIT is limited to a 0.25% rate.

Under this bill, Lake County may adopt a local option income tax rate of up to 1% in total. Once adopted, the rate may not be increased, decreased, or rescinded. A COIT rate, if adopted, would be limited to 0.75%. Aside from the rate restrictions, the Lake County would still have all current options regarding the mix of taxes and uses that may be adopted.

Gary Sanitary District - Summary - This bill would increase the maximum permissible levy for the city of Gary by $4,944,930 beginning in CY 2013. The bill would also eliminate the maximum levy for the Gary Sanitary District. Overall, the combined maximum property tax levy for both units would be reduced by $3.1 M per year. This bill would not affect debt levies.

Actual levies could increase by $2.9 M in 2013 over the 2012 levy if the city chooses to use the additional maximum levy. But, under current law, the sanitary district may increase its levy by up to $7.6 M. So the potential levy increase is smaller under the bill than under current law.

Gary Sanitary District - Background - From 2010 through 2013 (current), the sanitary district's maximum levy has been frozen at $7.6 M. In the sanitation general fund, the sanitary district levied $4.9 M in CY 2010, $3.0 M in CY 2011, and 0 in CY 2012. The district also had a $2.7 M levy in the sanitary general fund in 2010.

State Agencies Affected: Department of Local Government Finance, State Department of Health, Ports of Indiana Commission, Office of Management and Budget; State Board of Accounts.

Local Agencies Affected: City of Gary; Gary Sanitary District; Gary Airport Authority; Civil taxing units and school corporations in Lake County.

Information Sources: Local Government Database, Department of Local Government Finance.

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